Standardization and its Relation to Industrial Concentration

By Homer Hoyt
[1] Economist, Washington, D. C.

THE advocates of standardization may be surprised to learn that they are also committed to a policy of concentration of industry, yet that is the inevitable goal towards which their principles are carrying them. Standardization and the competitive spirit cannot live amicably together; one always tends to destroy the other. Thus if standardization be attempted under competitive conditions and if a number of rival firms undertake to manufacture the same standardized article, competition is entirely on the basis of price and the concern which can produce at the lowest cost and consequently sell at the lowest price will undersell its rivals and drive them from the field. Moreover, if standardization is retained, the progress towards monoply proceeds at an accelerated rate of speed because every inroad which the largest concern makes upon the markets of its rivals may increase its output and lower its overhead cost per unit of product, and correspondingly decrease the output and raise the overhead cost per unit of product of the smaller firm. In those industries where unit costs decrease with volume the largest concern can use the very trade gained by price cutting as a basis of lowering prices still more, while the smaller concern with every loss of sales is either forced to raise prices or to increase its deficit at a progressive rate. Wherever standardization thus makes mass production under conditions of heavy fixed capital the most economical, competition will die of its own excesses and a combination of firms —in which each plant specializes on a given part of the standardized article or in which the most efficient plant manufactures all the articles under the most favorable conditions of quantity production—will be the only stable form of business organization.

Even as competition thus fails when standardization is master, so also is standardization overthrown when competition is kept in the saddle. For the only way by which rival manufacturers

[1] Mr. Hoyt is now economist of the War Trade Board, Washington, D. C.

can escape from the excessive price competition that destroys all competition is to transfer the competition from the plane of price to that of quality by splitting up the standardized product into many brands that are distinguished from each other by slight differences in size, shape, color or design. Since the consumer cannot properly appraise the pecuniary value of these intangible and aesthetic differences, he cannot readily compare prices of different brands and he thereby loses his power to stimulate cut-throat competition between manufacturers. On the other hand, when a producer makes his own specialty which is not exactly like the goods of any one else, he enjoys a narrow range of monopoly control over price, the power of which varies according to the strength of the consumer's preference for his particular brand. The device of the specialty not only tends to perpetuate competition and small business because it prevents ruinous price competition, but also because the production of unique patterns and ornamental designs that appeal to a narrow market and that require frequent change of manufacturing process neither requires large scale operation nor partakes of its advantages. Thus the independence and competitive freedom of the firms in an industry are maintained by the sacrifice of standardization.

Hitherto, competition has in the main prevailed over standardization among American manufacturers so that we have been showered with a vast multitude of slightly different brands. The chief result of this tendency has been to give the American consumer almost unlimited power in directing what styles of goods should be produced. American manufacturers have not attempted to exercise autocratic powers over our daily life. American consumers have not been forced to lie in an iron bed of Procrustes of standard dimensions, but they have had their choice of iron, brass and wooden beds of manifold sizes and designs.

The variety of design in ordinary articles has given full opportunity for the satisfaction of the most fastidious tastes; the discriminating judge of chairs had 518 patterns of piano stools and a countless legion of ordinary chairs from which to make his choice; the connoisseur of plows and cultivators could undoubtedly find the style dictated by his own individualistic notions from the varied assortment displayed by the agricultural implement dealers;

and anyone who was particular about the appearance of the interior of his house could spend his lifetime in turning over samples of wall paper. From the cradle to the grave, from the many varieties of cribs and baby carriages to the profusion of styles in burial shrouds and coffins, the American consumer has been unrestricted in his choice.

In order to satisfy his eccentric notions, however, the American consumer is compelled to forfeit the benefits of standardization. He cannot buy a standard limousine, standard units of clothing graded according to wool content and durability, standard sets of furniture, and standard canned goods of guaranteed purity, weight and quality, but he must select the kind and quality of goods he desires from the bewildering array of similar brands in our national window display. Not only must he spend his time in appraising ornamental or superficial differences between slightly different brands, and in educating himself against the wiles of the salesmen who would sell him an inferior brand with a similar label, but he must spend money for his liberty of choice. The extra materials and labor required by the ornamental features of the brands, the risk of special brands going out of style and the luxury of hand made and small scale production, must be paid by the producer and passed on to the consumer. The production of a medley of brands is also undesirable from the point of view of the manufacturer and of society. The manufacturer is limited in his market because the specialty lacks the wide range of demand possessed by the standardized article, and he is deprived of the benefits of large scale production. Society loses on account of the wasteful application of its resources.

Some of this individuality of style is worth its social cost. A society in which everyone rode in Ford cars and lived in uniform cement houses would be monotonous even though it were the most economical. It is also true that some differences in size and style are required by the exigences of industry and natural individual differences. But after allowing for these necessary minima, a further indulgence of individual eccentricities merely lessens the surplus capital that might be used for the cultural expression of a people along lines where fine differences count for the most in artistic effect.

In view of the counterbalancing disadvantages of a profusion

of brands, it would seem that our long-cherished liberties—of having so much to choose from that we cannot make an intelligent choice—are not worth clinging to. The economy of standardization makes a strong appeal to consumer and producer even in times of peace. When the exigencies of war also required standardization, the American public was quite willing to sacrifice its theoretical freedom of selection. The war—with its imperative demand for the mass production that was necessary to deluge the enemy with steel and to overwhelm him by superior weight of men and materials and with its insistent demand for the economy of material and shipping space that increased our supply of war material and that widened the neck of the bottle through which these supplies were sent to the battle front—compelled a degree of unificiation and standardization in American industry that has never existed before. American business men who standardized their products as a part of the team work that won the war also tasted the fruits of the economies of standardization and they now hesitate to return to the old competitive struggle and its diversification of brands.

Combinations were necessary to secure the standization that was adopted during the war just as combination is necessary to secure standardization during peace. The war service committees that were organized in each trade under the United States Chamber of Commerce were the temporary war-time consolidations that substituted some degree of uniformity and standardization for an every-man-for-himself policy. These ephemeral industrial pools, formed only for the period of emergency, derived their binding force and their resulting powers to compel standardization chiefly from the spirit of national sacrifice. Permanent industrial combinations to effect standardization must run the gauntlet of an entirely different set of social conditions; they must meet the test of industrial fitness and the scrutiny of the law. The economic advantage of the standardization effected by these combinations has already been indicated,[2] but the legality of these combinations in times of peace remains to be discussed.

The existing law runs absolutely counter to the great combinations that would sponsor standardization. While standardization itself is not prohibited by the law, the only methods by which

[2] Supra, p. 284.

thorough-going standardization can be attained, i. e., by combination, are declared to be unlawful. The very suppression of the individualistic tendencies of manufacturers and the unanimity of all the firms in an industry that is necessary to secure standardization would result in that preponderating degree of control which is prohibited by the Sherman Act. The circumstance that the combination of industry was for the beneficial purpose of lowering costs by large scale production would not blind the eyes of the court to the fact that the keen competition over staples was thereby effectively restrained. The very power which arises out of great combinations is itself illegal, regardless of the mode of its exercise. There is no "good trust" except those raised under the Webb-Pomerene Act.

The way towards standardization thus lies between the whirlpool of ruinous competition and the sharp rocks of the Sherman Act. If one business man manufactures a standard article without some price agreement with his fellow manufacturers, he is faced sooner or later with a fierce price competition which ends in the survival of one firm. If all the business men in a trade agree to manufacture a standardized product without excessive price competition, they are guilty of violating the anti-trust statute. Standardization in minor details may be permanently maintained under competitive conditions and standardization on a large scale may survive the competitive struggle for a time; but the full benefits of standardization can be permanently reaped only by the great combinations that are frowned upon by the Sherman Act.

This breach between the economic advantage and the law in regard to standardization seems to be widening, and sooner or later a change must come. Either the law or the economic forces must yield. The law is the first to show signs of bending. The Webb-Pomerene bill permits combinations for export business, and since that necessarily means perfect harmony among all the firms of a domestic industry for the one purpose of foreign trade, it will be difficult indeed to cause these firms to fight in the other purpose of domestic business. The concession made to combinations by the Webb-Pomerene Act may prove to be fatal to the entire structure of anti-trust law.

The movement towards concentration will of course be resisted

by whatever competitive spirit exists among American business men, and if that combative inclination be strong, we may look for an increasing multiplication of brands instead of standardization. The strength of individualism among consumers—the desire of war-worn soldiers for variety and the pent-up demand of the civilian population for another round of the pre-war fads and luxuries—will contribute its influence towards increasing variety in goods. The necessity of giving employment to discharged soldiers will also be a potent excuse for producing useless frills that require an extra expenditure of labor power, in spite of the economic fallacy involved in such an argument.

As competition thus struggles to retain its former mastery over production, the forces of industrial combination and standardization are slowly mobilizing. The unification of the wants of all nations and the unification of the control of industry are sweeping us onward toward the quantity production of staple goods. Varied standards of style and fashion within the United States are being merged into one by the centrifugal force that is tearing down the barrier between the North and the South, and that is effacing the frontier which separated the West from the East, while throughout the world the differences in dress and tastes have been lessened by increasing social intercourse.

While this unification of wants is taking place, standardization and concentration of industry are also growing. As the foreign demand for American goods increases because of a market expanded by our new international relationships, by the increasing speed and carrying capacity of ocean steamers, the wider extension of our credit and reputation abroad, the universalization of wants accomplished by fraternizing with our Allies, and the vacuum in trade caused by the prostration of Germany, there will come an increasing tendency towards large scale production along lines hitherto operated as small scale units. As we develop more and more into a manufacturing nation, using our own resources for our own mills, feeding raw cotton to cotton mills even as steel is sent to the steel mills and thereby establishing integration on an ever-increasing scale, the industries of this country will be knit more closely together.

As some American industries thus tend to expand into monopolies of world-wide scope, foreign combinations of trades that

possess an advantage over similar American trades will also attain monopoly size by entering our markets and exchanging their wares for the products of our monopolies. In this merciless international competition, the small business unit will lose even the little market that it has, and the industries of the world will become concentrated into monopolies that from manufacturing centers located at the points of greatest geographical advantage will send their standardized products by swift and cheap carriers to the farthest recesses of the Orient and the developing jungles of Africa and South America. As the relationship between all nations thus becomes closer and more apparent, individualism, the pioneer spirit and the era of small business will pass from the United States.

Many business men already see the change forecasted in the industrial barometer, and they are preparing for the time when the legal dyke will no longer be able to hold back the gathering flood. In the meantime the prospective dangers of unregulated monopoly should hasten the preparation of new instruments of social control. We must draw the fangs of our new-born monopolies before they use their adult powers to seize control of our political and financial machinery for their selfish ends. The practice of standardization will create a new fund of wealth, but we must control the forces that bring it forth so that the masses of consumers will share its benefits.